

CHEROKEE COUNTY

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

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CHEROKEE COUNTY

OFFICIALS

(Before January 2009)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Terry Graybill	Board of Supervisors	Jan. 2009
Dean Schmidt	Board of Supervisors	Jan. 2009
Ronald Wetherell	Board of Supervisors	Jan. 2009
Mark Leeds	Board of Supervisors	Jan. 2011
Jeffrey Simonsen	Board of Supervisors	Jan. 2011
Bonnie Ebel	County Auditor	Retired June 30, 2008
Kris Glienke	County Auditor (appointed July 1, 2008)	Nov. 2008
Lynde Lundquist	County Treasurer	Retired Feb. 29, 2008
Roswitha (Hedgie) Brandt	County Treasurer (appointed March 1, 2008)	Nov. 2008
Dawn Jones Coombs	County Recorder	Jan. 2011
Dave Scott	County Sheriff	Jan. 2009
Ryan Kolpin	County Attorney	Jan. 2011
Robert S. Hart	County Assessor	Jan. 2010

(After January 2009)

Mark Leeds	Board of Supervisors	Jan. 2011
Jeffrey Simonsen	Board of Supervisors	Jan. 2011
Terry Graybill	Board of Supervisors	Jan. 2013
Larry Prunty	Board of Supervisors	Jan. 2013
Dean Schmidt	Board of Supervisors	Jan. 2013
Kris Glienke	County Auditor	Jan. 2013
Roswitha (Hedgie) Brandt	County Treasurer	Jan. 2011
Dawn Jones Coombs	County Recorder	Jan. 2011
Dave Scott	County Sheriff	Jan. 2013
Ryan Kolpin	County Attorney	Jan. 2011
Robert S. Hart	County Assessor	Jan. 2010

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

To the Officials of Cherokee County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Cherokee County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2010, on our consideration of Cherokee County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 14 and 40 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cherokee County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for each of the years in the seven year period ended June 30, 2008, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

February 23, 2010

Hungelman, Putzier & Co.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cherokee County provides this Management's Discussion and Analysis of its financial statements. This report contains an overview and analysis of the financial activities for the fiscal year ended June 30, 2009. The following information should be considered in relation to the County's financial statements included in this report.

This is the sixth year that Cherokee County has been required to report all activities on a full accrual basis, as required by the reporting standards of GASB 34. The following comprehensive comparison to fiscal year 2008 makes it more meaningful for the public to understand the County's financial position and results of operations.

2009 FINANCIAL HIGHLIGHTS

- Cherokee County's governmental fund revenues increased approximately \$345,908 or 4% from fiscal year 2008 to fiscal year 2009. Property taxes and other county tax increased approximately \$544,573 or 13%.
- Cherokee County's overall governmental fund expenditures decreased approximately \$524,643 or 6% from fiscal year 2008 to fiscal year 2009. The breakdown by service areas include: public safety and legal services increased approximately \$38,116 or 3%; physical health and social services decreased by approximately \$34,650 or 11%; mental health expenditures decreased by approximately \$198,193 or 14%; county environment and education decreased approximately \$226,224 or 30%; roads and transportation increased by approximately \$254,777 or 9%; governmental services to residents increased approximately \$20,872 or 7%; administration increased approximately \$152,163 or 15%; and capital projects expenditures decreased approximately \$531,504 or 54%.
- Cherokee County's net assets increased 4.09%, or approximately \$1,055,052, from June 30, 2008 to June 30, 2009.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Cherokee County as a whole, and present an overall view of the County's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Cherokee County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Cherokee County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

USING THIS ANNUAL REPORT - (Continued)

- Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor Special Revenue and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

Accounting methods similar to those used in private-sector businesses are used in preparing the County-wide financial statements. The information contained in these reports helps the public to understand if Cherokee County's financial position is better or worse after the fiscal year has ended.

The Statement of Net Assets includes all of Cherokee County's assets and liabilities with "net assets" being reported as the difference between assets and liabilities. Over time, increases or decreases in the County's net assets will indicate if the financial position of the county is improving or deteriorating.

The Statement of Activities includes all of the current year's revenues and expenses. All changes in net assets are reported as soon as the change occurs, regardless of when the cash was received or paid. Therefore, revenues and expenditures for some items will be reported in this statement and their resulting cash flows will be reported in future fiscal reports.

Cherokee County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The Fund Financial Statements provide more detailed data about Cherokee County's funds. Funds are used to keep track of sources of funding and spending on particular programs. Most "major" funds are required by state law while the County establishes other funds to control and manage money for specific purposes or to show that it is properly using certain revenues such as federal grants.

Cherokee County has three kinds of funds:

1) Governmental Funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, and 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance Cherokee County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures, and changes in fund balances.

2) Proprietary funds account for the County's Internal Service, Employee Group Health Insurance Fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions.

REPORTING THE COUNTY'S FINANCIAL ACTIVITIES – (Continued)

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows.

3) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support Cherokee County's own programs.

The required financial statement for fiduciary funds includes a statement of fiduciary assets and liabilities.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Cherokee County's combined net assets were \$26,865,636 for fiscal year 2009. This reflects a \$1,055,052 (4.09%) increase over fiscal year 2008 net assets of \$25,810,584 (as restated). This increase can be substantially attributed to roadway construction. The analysis that follows focuses on the changes in the net assets for governmental activities.

Net Assets of Cherokee County's Governmental Activities

	June 30	
	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 15,105,658	\$ 14,083,960
Capital assets	<u>19,603,416</u>	<u>19,371,329</u>
Total assets	<u>34,709,074</u>	<u>33,455,289</u>
Long term liabilities	2,987,659	3,099,596
Other liabilities	<u>4,855,779</u>	<u>4,662,975</u>
Total liabilities	<u>7,843,438</u>	<u>7,762,571</u>
Net assets		
Invested in capital assets, net of related debt	19,603,416	19,371,329
Restricted	4,344,700	4,376,988
Unrestricted	<u>2,917,520</u>	<u>1,944,401</u>
Total net assets	<u>\$ 26,865,636</u>	<u>\$ 25,692,718</u>

Net assets of Cherokee County's governmental activities increased by \$1,055,052 compared to fiscal year 2008. The largest portion of Cherokee County's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, are reported at approximately \$2,917,520 as of June 30, 2009.

Changes in Net Assets of Cherokee County's Governmental Activities

	Year Ended June 30	
	2009	2008
Revenues:		
Program revenues:		
Charges for service	\$ 976,406	\$ 1,034,831
Operating grants, contributions, and restricted interest	3,845,510	3,657,586
Capital grants, contributions, and restricted interest	551,347	795,171
General revenues:		
Property tax	4,328,621	4,281,087
Penalty and interest on property tax	31,865	33,664
State tax credits	199,110	186,075
Tax increment financing	-	165,597
Local option sales tax	500,090	-
Unrestricted investment earnings	122,265	223,539
Other general revenues	24,301	172,908
Total revenues	<u>10,579,515</u>	<u>10,550,458</u>
Program expenses:		
Public safety and legal services	1,387,952	1,368,159
Physical health and social services	311,610	345,595
Mental health	1,257,260	1,451,667
County environment and education	573,751	549,687
Roads and transportation	3,912,560	4,014,308
Governmental services to residents	347,636	334,426
Administration	<u>1,733,694</u>	<u>1,612,204</u>
Total expenses	<u>9,524,463</u>	<u>9,676,046</u>
Increase in net assets	1,055,052	874,412
Net assets beginning of year, as restated	<u>25,810,584</u>	<u>24,818,306</u>
Net assets end of year	<u>\$ 26,865,636</u>	<u>\$ 25,692,718</u>

Cherokee County increased the General Supplemental levy by 6.364 cents, reduced the Mental Health levy by 4.841 cents, and the County maintained the prior levy rates in the General and Rural Funds. This decision resulted in \$47,534 of additional property tax revenue.

INDIVIDUAL MAJOR FUND ANALYSIS

As Cherokee County completed the year, its governmental funds reported a combined fund balance of \$7,177,241, an increase of \$864,445 from last year's \$6,312,796 ending fund balance. The increase in fund balance is primarily attributable to a 30% reduction in county environment expenditures for land acquisitions and a 54% reduction in capital projects for roadway construction. As a direct result of a slight increase in taxable valuations, the Cherokee County Board of Supervisors chose to maintain relatively level levy rates as a way of maintaining minimal fund balances in the regular cash flow of business. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

INDIVIDUAL MAJOR FUND ANALYSIS – (Continued)

- General Fund revenues and expenditures reflect increases in revenues directly related to an additional 6.364 cent supplemental levy and slight overall valuation increases. The ending fund balance showed an increase of \$202,151 from the prior year to \$2,098,808.
- Cherokee County has continued to look for ways to effectively manage the cost of mental health services. Revenues increased for the Mental Health Fund in Fiscal Year 2009 to \$1,588,293 while expenditures decreased to \$1,253,326. As a result of a negative fund balance on June 30, 2008, approximately \$400,000 of Allowable Growth dollars were received from the Department of Human Services in January 2009 and another \$400,000 are expected in January 2010. The County levied at 100% with a 4.841 cent reduced levy rate and the resulting June 30, 2009 fund balance increased to \$271,857.
- Rural Services ending fund balance for fiscal year 2009 was \$440,156, which is a \$76,597 increase from the prior year's balance of \$363,559. This change is a result of an increase in rural valuations.
- Secondary Roads ending fund balance increased by \$244,485 for the year ending June 30, 2009. The prior year fund balance was \$3,827,509 and was increased to a \$4,071,994 fund balance after completion of the 2009 year. The increase can be attributed to an increased transfer of funds from the Rural Basic Fund and a 54% reduction in capital project expenditures.
- Other Special Revenue Funds which include County Recorder Records Management, Conservation Land Acquisition Trust, Resource Enhancement and Protection, and the Country Betterment Fund, are classified as nonmajor special revenue funds. The combined activities of these funds resulted in an increase in fund balance of \$6,245. The ending fund balance for 2009 was \$294,426 compared to the prior year's ending fund balance of \$288,181.

BUDGETARY HIGHLIGHTS

Over the course of the year, Cherokee County amended its budget once. The amendment was made on May 5, 2009 by the County Board of Supervisors for the following reasons:

- Intergovernmental Revenues were increased by \$60,000 for Public Health grant pass through monies.
- Expenditures in the Public Safety service area were increased by \$10,000 for EMT training expenses.
- The Physical Health service area was increased by \$60,000 for additional expenditures in Public Health grant pass through funds.
- Budgeted expenditures within the County Environment and Education area were increased by \$2,000 to allow for purchase of prescribed fire radios by the conservation department.
- Road and Transportation expenses were increased by \$332,000 for additional maintenance costs.
- Expenditures in Capital Projects were reduced by \$332,000 to offset the moving of Secondary Road expenses to maintenance.

CAPITAL ASSETS

Cherokee County's Capital Assets activity for the year ended June 30, 2009, was as follows:

Capital Assets of Governmental Activities at Year End		
	<u>June 30</u>	
	<u>2009</u>	<u>2008</u>
Governmental activities:		
Capital assets not being depreciated:		
Land	\$ 488,286	\$ 488,286
Construction in progress	644,329	1,240,791
Total capital assets not being depreciated	<u>1,132,615</u>	<u>1,729,077</u>
Capital assets being depreciated:		
Buildings	3,767,897	3,767,897
Improvements other than buildings	9,750	9,750
Equipment and vehicles	5,649,506	5,439,926
Infrastructure, road network	16,381,244	14,848,765
Total capital assets being depreciated	<u>25,808,397</u>	<u>24,066,338</u>
Less accumulated depreciation for:		
Buildings	1,836,562	1,783,317
Improvements other than buildings	4,084	3,596
Equipment and vehicles	2,634,859	2,509,704
Infrastructure, road network	2,862,091	2,045,825
Total accumulated depreciation	<u>7,337,596</u>	<u>6,342,442</u>
Total capital assets being depreciated, net	<u>18,470,801</u>	<u>17,723,896</u>
Governmental activities capital assets, net	<u>\$ 19,603,416</u>	<u>\$ 19,452,973</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND LEVY RATES

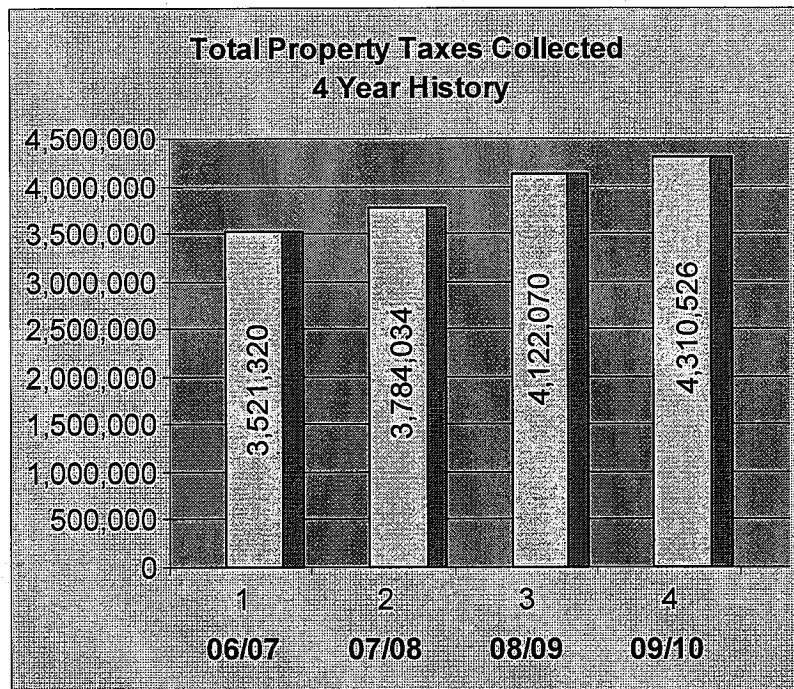
Cherokee County's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates, and the fees that will be charged for various county services.

State revenue cutbacks, health insurance increases, a generally flat economy and a decreasing balance in available funds have influenced the Cherokee County Board of Supervisors' decision concerning tax rates for the 2010 fiscal year budget.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND LEVY RATES – (Continued)

The fiscal year 2010 budget certified tax revenues, broken down by the major funds that Cherokee County receives are as follows:

	<u>Fiscal Year 2010</u> <u>Dollars Certified</u>	<u>Fiscal Year 2009</u> <u>Dollars Certified</u>	<u>Fiscal Year 2008</u> <u>Dollars Certified</u>	<u>Fiscal Year 2007</u> <u>Dollars Certified</u>
General Fund	\$2,051,146	\$1,954,968	\$1,816,618	\$1,851,711
General Supplemental Fund	422,225	402,427	340,917	-
Mental Health Fund	450,549	456,803	449,603	458,288
Rural Basic Fund	<u>1,386,606</u>	<u>1,307,872</u>	<u>1,176,896</u>	<u>1,211,321</u>
Total Taxes Assessed	<u>\$4,310,526</u>	<u>\$4,122,070</u>	<u>\$3,784,034</u>	<u>\$3,521,320</u>



Levy Rates (based on \$/\$1,000 taxable valuation) for Cherokee County have been:

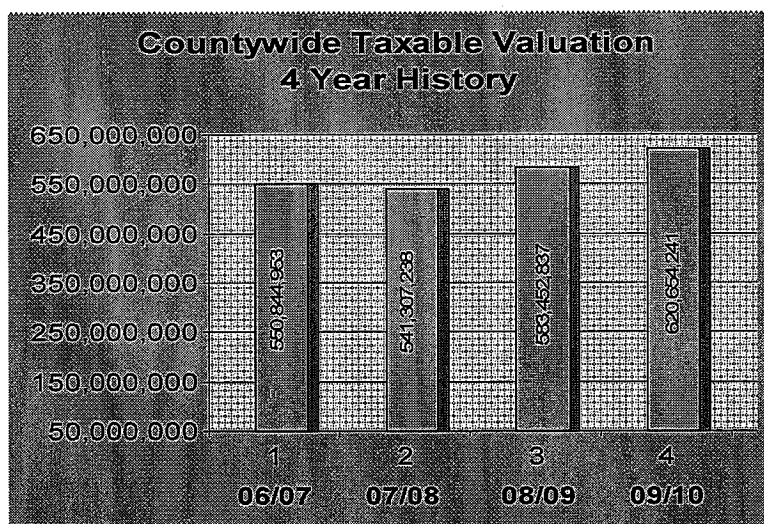
	<u>Fiscal Year 2010</u> <u>Levy Rates</u>	<u>Fiscal Year 2009</u> <u>Levy Rates</u>	<u>Fiscal Year 2008</u> <u>Levy Rates</u>	<u>Fiscal Year 2007</u> <u>Levy Rates</u>
General Fund	3.50	3.50	3.50	3.50
General Supplemental Fund	.72047	.72047	.65683	-
Mental Health Fund	.76880	.818782	.86623	.86623
Rural Basic Fund	3.25	3.25	3.25	3.25

Iowa Code limits the General Fund levy rate to \$3.50 per \$1,000 of taxable value. A majority of Iowa Counties are at that limit and levy in the General Supplemental Fund which allows them to exceed the \$3.50 general basic levy for certain expenditures which include employee benefits (i.e. health insurance, FICA, and IPERS), county risk management expenditures, election costs, and court ordered settlements. The Rural Basic levy rate limit is \$3.95 per \$1,000 of taxable value. Each year, more counties are reaching that limit and are using the Rural Supplemental levy as allowed by Iowa Law for expenditures such as employee benefits and aviation authority contributions.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND LEVY RATES – (Continued)

Cherokee County's Taxable Valuations reflect a slight increase for fiscal year 2010:

	Fiscal Year 2010 <u>Valuations</u>	Fiscal Year 2009 <u>Valuations</u>	Fiscal Year 2008 <u>Valuations</u>	Fiscal Year 2007 <u>Valuations</u>
Rural Taxable	\$456,476,836	\$422,537,961	\$379,840,825	\$389,808,290
Urban Taxable	<u>164,177,405</u>	<u>160,914,876</u>	<u>161,466,413</u>	<u>161,036,663</u>
Total Taxable	<u>\$620,654,241</u>	<u>\$583,452,837</u>	<u>\$541,307,238</u>	<u>\$550,844,953</u>



Cherokee County has been fortunate that there have been slight increases in property valuations in past years and that most county departments have held the line on expenditures. This combination, along with implementing a General Basic Supplemental levy, has allowed fund balances to carry the County's slight annual increase in budgetary expenses. Previous methods of spending down reserves have now reduced fund balances to basic levels needed to conduct normal business cash flow and cannot absorb additional expenditures of future budgets unless revenues can be maintained at an equal level.

The fiscal year 2011 budget projects a stable financial environment allowing the General Basic Supplemental levy to be reduced by 17.047 cents and the Mental Health levy lowered by 3.542 cents. An increase in taxable valuations and minimal increases in both anticipated revenues and expenditures provide the foundation for lowering levy rates while maintaining a fiscally sound fund balance.

Looking forward into future budget years, Cherokee County will need to address increasing wage related benefits with potential levy rate increases in the Rural Basic levy and continuation of the General Basic Supplemental levy to maintain a desired 25% ending fund balance. This ending fund balance is needed to cover expenses incurred during the first quarter of the fiscal year, before any potential tax revenues are received via property tax payments. Another area of growing crisis is the revenue limitations of the Mental Health Fund. The maximum levy will not generate sufficient funds to cover expected expenditures without additional funding from the state, perhaps through allowable growth payments. If additional state revenues are not provided, Cherokee County will need to weigh the possibility of cutting services to clients, or at least implementing a waiting list.

Cherokee County anticipates a gradual increase in valuations in the upcoming budgets; however, it will present difficult balancing of covering mandated services and expenditures while maintaining a conservative attitude with the tax levy rates.

CONTACTING CHEROKEE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide Cherokee County's citizens, taxpayers, customers, and creditors with a general overview of Cherokee County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Cherokee County Auditor's Office, 520 West Main, Cherokee, Iowa.

CHEROKEE COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2009

Exhibit A

Governmental
Activities

ASSETS

Cash and pooled investments	\$ 6,488,862
Receivables:	
Property tax:	
Delinquent	2,396
Succeeding year	4,556,231
Interest and penalty on property tax	4,083
Accounts	15,031
Accrued interest	17,229
Notes receivable	2,834,056
Due from other governments	389,865
Inventories	560,792
Prepaid expenses	237,113
Land	488,286
Construction in progress	644,329
Infrastructure, property and equipment, net of accumulated depreciation	<u>18,470,801</u>
Total assets	<u>34,709,074</u>

LIABILITIES

Accounts payable	131,522
Accrued interest payable	14,056
Due to other governments	145,138
Deferred revenue:	
Succeeding year property tax	4,556,231
Other	8,832
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds	230,000
Compensated absences	167,659
Portion due or payable after one year:	
General obligation bonds	<u>2,590,000</u>
Total liabilities	<u>7,843,438</u>

NET ASSETS

Invested in capital assets	19,603,416
Restricted for:	
Mental health purposes	266,680
Rural service purposes	440,594
Secondary roads purposes	3,342,785
Other purposes	294,641
Unrestricted	<u>2,917,520</u>
Total net assets	<u>\$ 26,865,636</u>

See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

Exhibit B

Functions/Programs	<u>Expenses</u>	<u>Charges for Service</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
			<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>	
Governmental activities:					
Public safety and legal services	\$ 1,387,952	\$ 214,917	\$ 26,205	\$ -	\$ (1,146,830)
Physical health and social services	311,610	24,770	36,836	-	(250,004)
Mental health	1,257,260	22,617	1,143,144	-	(91,499)
County environment and education	573,751	23,198	20,573	-	(529,980)
Roads and transportation	3,912,560	342,060	2,555,192	551,347	(463,961)
Governmental services to residents	347,636	231,268	63,560	-	(52,808)
Administration	1,733,694	117,576	-	-	(1,616,118)
Total	<u>\$ 9,524,463</u>	<u>\$ 976,406</u>	<u>\$ 3,845,510</u>	<u>\$ 551,347</u>	<u>(4,151,200)</u>
General Revenues:					
Property and other county tax levied for:					
General purposes					4,328,621
Penalty and interest on property tax					31,865
State tax credits					199,110
Local option sales tax					500,090
Unrestricted investment earnings					122,265
Miscellaneous					24,301
Total general revenues					<u>5,206,252</u>
Change in net assets					1,055,052
Net assets beginning of year					<u>25,810,584</u>
Net assets end of year					<u>\$ 26,865,636</u>

See notes to financial statements.

CHEROKEE COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

Exhibit C

		Special Revenue				
	<u>General</u>	<u>Mental Health</u>	<u>Rural Services</u>	<u>Secondary Roads</u>	<u>Nonmajor</u>	<u>Total</u>
<u>ASSETS</u>						
Cash and pooled investments	\$1,900,559	\$ 408,050	\$ 380,164	\$ 3,266,217	\$ 286,192	\$ 6,241,182
Receivables:						
Accounts	400	-	-	13,289	1,342	15,031
Property tax:						
Delinquent	1,659	299	438	-	-	2,396
Succeeding year	2,473,453	446,039	1,386,700	-	250,039	4,556,231
Interest and penalty on property tax	4,083	-	-	-	-	4,083
Accrued interest	17,229	-	-	-	-	17,229
Due from other governments	78,278	30,398	62,664	196,959	21,566	389,865
Prepaid expense	147,341	1,200	1,770	79,491	-	229,802
Inventories	-	-	-	560,792	-	560,792
Total assets	<u>\$4,623,002</u>	<u>\$ 885,986</u>	<u>\$1,831,736</u>	<u>\$ 4,116,748</u>	<u>\$ 559,139</u>	<u>\$12,016,611</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 36,584	\$ 31,728	\$ 4,204	\$ 44,332	\$ 14,674	\$ 131,522
Due to other governments	8,415	136,063	238	422	-	145,138
Deferred revenue:						
Succeeding year property tax	2,473,453	446,039	1,386,700	-	250,039	4,556,231
Other	5,742	299	438	-	-	6,479
Total liabilities	<u>2,524,194</u>	<u>614,129</u>	<u>1,391,580</u>	<u>44,754</u>	<u>264,713</u>	<u>4,839,370</u>
Fund balances:						
Reserved for:						
Supplemental levy purposes	254,675	-	-	-	-	254,675
Prepays	147,341	1,200	1,770	79,491	-	229,802
Inventories	-	-	-	560,792	-	560,792
Unreserved, reported in:						
General fund	1,696,792	-	-	-	-	1,696,792
Special revenue funds	-	270,657	438,386	3,431,711	294,426	4,435,180
Total fund balances	<u>2,098,808</u>	<u>271,857</u>	<u>440,156</u>	<u>4,071,994</u>	<u>294,426</u>	<u>7,177,241</u>
Total liabilities and fund balances	<u>\$4,623,002</u>	<u>\$ 885,986</u>	<u>\$1,831,736</u>	<u>\$ 4,116,748</u>	<u>\$ 559,139</u>	<u>\$12,016,611</u>

See notes to financial statements.

CHEROKEE COUNTY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Exhibit D

Total governmental fund balances	\$ 7,177,241
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$26,941,012 and the accumulated depreciation is \$7,337,596.	19,603,416
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	6,479
The Internal Service Fund is used by management to charge the costs of partial self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	246,159
Compensated absences payable are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(167,659)</u>
Net assets of governmental activities	<u>\$ 26,865,636</u>

See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

Exhibit E

		Special Revenue				
	<u>General</u>	<u>Mental Health</u>	<u>Rural Services</u>	<u>Secondary Roads</u>	<u>Nonmajor</u>	<u>Total</u>
Revenues:						
Property and other County tax	\$ 2,351,413	\$ 452,531	\$ 1,692,635	\$ -	\$ 330,859	\$ 4,827,438
Interest and penalty on property tax	31,361	-	-	-	-	31,361
Intergovernmental	299,477	1,129,590	58,445	2,561,849	37,403	4,086,764
Licenses and permits	22,291	-	900	95,626	-	118,817
Charges for service	247,067	5,317	725	564	2,583	256,256
Use of money and property	123,816	-	-	4,832	19,400	148,048
Miscellaneous	54,451	855	-	14,932	9,601	79,839
Total revenues	<u>3,129,876</u>	<u>1,588,293</u>	<u>1,752,705</u>	<u>2,677,803</u>	<u>399,846</u>	<u>9,548,523</u>
Expenditures:						
Operating:						
Public safety and legal services	1,088,583	-	270,353	-	34,301	1,393,237
Physical health and social services	306,647	-	-	-	1,500	308,147
Mental health	-	1,253,326	-	-	-	1,253,326
County environment and education	314,069	-	211,390	-	19,753	545,212
Roads and transportation	-	-	60,365	3,103,267	-	3,163,632
Governmental services to residents	346,777	-	-	-	2,437	349,214
Administration	871,649	-	-	-	335,610	1,207,259
Capital projects	-	-	-	464,266	-	464,266
Total expenditures	<u>2,927,725</u>	<u>1,253,326</u>	<u>542,108</u>	<u>3,567,533</u>	<u>393,601</u>	<u>8,684,293</u>
Excess (deficiency) of revenues over expenditures	<u>202,151</u>	<u>334,967</u>	<u>1,210,597</u>	<u>(889,730)</u>	<u>6,245</u>	<u>864,230</u>
Other financing sources (uses):						
Sale of capital assets	-	-	-	215	-	215
Operating transfers in (out)	-	-	(1,134,000)	1,134,000	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,134,000)</u>	<u>1,134,215</u>	<u>-</u>	<u>215</u>
Net change in fund balances	202,151	334,967	76,597	244,485	6,245	864,445
Fund balances, beginning of year	<u>1,896,657</u>	<u>(63,110)</u>	<u>363,559</u>	<u>3,827,509</u>	<u>288,181</u>	<u>6,312,796</u>
Fund balances, end of year	<u>\$ 2,098,808</u>	<u>\$ 271,857</u>	<u>\$ 440,156</u>	<u>\$ 4,071,994</u>	<u>\$ 294,426</u>	<u>\$ 7,177,241</u>

See notes to financial statements.

CHEROKEE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

Exhibit F

Net change in fund balances - Total governmental funds \$ 864,445

Amounts reported for governmental activities in the Statement of
Activities are different because:

Governmental funds report capital outlays as expenditures while
governmental activities report depreciation expense to allocate those
expenditures over the life of the assets. Capital outlay expenditures and
contributed capital assets exceeded depreciation expense in the current
year, as follows:

Expenditures for capital assets	\$ 957,811	
Capital assets contributed by the Iowa Department of Transportation	544,690	
Depreciation expense	<u>(1,288,990)</u>	213,511

In the Statement of Activities, the net effect of various transactions involving
capital assets (i.e., sales and trade-ins) is reflected in depreciation expense,
whereas the governmental funds report any proceeds from the
disposition of assets as an increase in financial resources. (63,068)

Because some revenues will not be collected for several months after the
County's year end, they are not considered available revenues and are
deferred in the governmental funds, as follows:

Property tax	1,273	
Other	<u>504</u>	1,777

Some expenses reported in the Statement of Activities do not require the
use of current financial resources and, therefore, are not reported as
expenditures in governmental funds, as follows:

Compensated absences		11,937
----------------------	--	--------

The Internal Service Fund is used by management to charge the costs of the partial
self funding of the county's health insurance benefit plan employee health
benefits to individual funds. The change in net assets of
the Internal Service Fund is reported with governmental activities. 26,450

Change in net assets of governmental activities \$ 1,055,052

See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2009

Exhibit G

Internal Service-
Employee
Group Health

ASSETS

Cash and cash equivalents
Prepaid expense
Total assets

\$ 247,680
40,129
287,809

LIABILITIES

Deferred Revenue

41,650

NET ASSETS

Unrestricted

\$ 246,159

See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

Exhibit H

Internal Service-
Employee
Group Health

Operating revenues:		
Reimbursements from operating funds	\$ 393,157	
Reimbursements from employees	<u>108,024</u>	\$ 501,181
Operating expenses:		
Insurance premiums	468,152	
Administrative fees	<u>8,752</u>	<u>476,904</u>
Operating income		24,277
Non-operating revenues:		
Interest income		<u>2,173</u>
Net income		26,450
Net assets beginning of year		<u>219,709</u>
Net assets end of year		<u>\$ 246,159</u>

See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

Exhibit I

Internal Service-
Employee
Group Health

Cash flows from operating activities:

Cash received from operating fund reimbursements	\$ 425,449
Cash received from employees and others	75,249
Cash payments to suppliers for services	<u>(480,810)</u>
Net cash provided by operating activities	19,888

Cash flows from investing activities:

Interest on investments	<u>2,173</u>
-------------------------	--------------

Net increase in cash and cash equivalents 22,061

Cash and cash equivalents at beginning of year 225,619

Cash and cash equivalents at end of year \$ 247,680

Reconciliation of operating income to net cash
provided by operating activities:

Operating income	\$ 24,277
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in deferred revenue	(483)
Increase in prepaid expenses	<u>(3,906)</u>

Net cash provided by operating activities \$ 19,888

See notes to financial statements.

CHEROKEE COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2009

Exhibit J

ASSETS

Cash and pooled investments:

County Treasurer	\$ 700,503
Other County officials	39,923

Receivables:

Property tax:

Delinquent	10,636
Succeeding year	11,673,098

Accounts	24,061
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Special assessments	<u>80,578</u>
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Total assets	<u>12,528,799</u>
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LIABILITIES

Trusts payable	7,298
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Due to other governments	<u>12,521,501</u>
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Total liabilities	<u>12,528,799</u>
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Net Assets	<u>\$ -</u>
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See notes to financial statements.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cherokee County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Cherokee County has included all funds, organizations, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the County. The County has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Cherokee County Assessor's Conference Board, Cherokee County E911 Service Board, Plains Area Mental Health, Cherokee County Solid Waste Commission, and the Northwest Iowa Multi-county Regional Juvenile Detention Center. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship, if any, with the organization and, as such, are reported in the Agency Funds of the County.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues, and other nonexchange transactions.

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets consists of capital assets net of accumulated depreciation.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the main operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

Additionally, the County reports the following funds:

Proprietary Fund - An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units, and/or other funds.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when they occur and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers property tax revenues to be available if they are collected within 60 days after year end. A one-year availability period is used for revenue recognition for all other governmental fund revenues.

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments), and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Fund are charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting - (Continued)

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year become effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2007, assessed property valuations; is for the tax accrual period July 1, 2008, through June 30, 2009; and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2008.

Interest and Penalty on Property Tax Receivable - Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Reported inventories in the governmental fund financial statements are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities, and Fund Equity - (Continued)

Capital Assets - Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds, and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$ 65,000
Buildings	25,000
Equipment and vehicles	10,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	15-100
Infrastructure	12-65
Equipment and vehicles	5-25

Due to Other Governments - Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable - Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable as well as delinquent property tax receivable not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Assets, Liabilities, and Fund Equity - (Continued)

Compensated Absences - County employees accumulate a limited amount of earned but unused vacation and compensatory hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide, proprietary fund, and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, and Secondary Roads Funds.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets - The net assets of the Internal Service, Employee Group Health Fund is designated for anticipated future catastrophic losses of the County.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements did not exceed the amounts budgeted in any functions.

2. CASH AND POOLED INVESTMENTS

The County's deposits in banks at June 30, 2009, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had no investments meeting the disclosure requirements of Government Accounting Standards Board Statement Number 3.

The County's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the County.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

3. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2009, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	<u>\$ 1,134,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009, was as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 488,286	\$ -	\$ -	\$ 488,286
Construction in progress	<u>1,240,791</u>	<u>686,118</u>	<u>(1,282,580)</u>	<u>644,329</u>
Total capital assets not being depreciated	<u>1,729,077</u>	<u>686,118</u>	<u>(1,282,580)</u>	<u>1,132,615</u>
Capital assets being depreciated:				
Buildings	3,767,897	-	-	3,767,897
Improvements other than buildings	9,750	-	-	9,750
Equipment and vehicles	5,439,926	566,484	(356,904)	5,649,506
Infrastructure, road network	<u>14,848,765</u>	<u>1,532,479</u>	<u>-</u>	<u>16,381,244</u>
Total capital assets being depreciated	<u>24,066,338</u>	<u>2,098,963</u>	<u>(356,904)</u>	<u>25,808,397</u>
Less accumulated depreciation for:				
Buildings	1,783,317	53,245	-	1,836,562
Improvements other than buildings	3,596	488	-	4,084
Equipment and vehicles	2,509,704	418,991	(293,836)	2,634,859
Infrastructure, road network	<u>2,045,825</u>	<u>816,266</u>	<u>-</u>	<u>2,862,091</u>
Total accumulated depreciation	<u>6,342,442</u>	<u>1,288,990</u>	<u>(293,836)</u>	<u>7,337,596</u>
Total capital assets being depreciated, net	<u>17,723,896</u>	<u>809,973</u>	<u>(63,068)</u>	<u>18,470,801</u>
Governmental activities capital assets, net	<u>\$ 19,452,973</u>	<u>\$ 1,496,091</u>	<u>\$ (1,345,648)</u>	<u>\$ 19,603,416</u>

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

4. CAPITAL ASSETS - (Continued)

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 48,549
Physical health and social services	3,003
Mental health	3,274
County environment and education	28,497
Roads and transportation	1,100,384
Governmental services to residents	52,720
Administration	52,563
Total depreciation expense - governmental activities	<u>\$ 1,288,990</u>

5. DUE TO OTHER GOVERNMENTS

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. The Agency Fund collections also include accruals of property tax for the succeeding year. The tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Services	\$ 8,415
Special Revenue:		
Mental Health	Services	136,063
Rural Services		238
Secondary Roads		422
		<u>136,723</u>
Total for governmental funds		<u>\$ 145,138</u>
Agency:		
County Assessor	Collections	\$ 455,559
Schools		7,388,796
Community Colleges		453,059
Corporations		3,232,390
Townships		243,553
Auto License and Use Tax		266,468
Agricultural Extension		178,059
All other		303,617
Total for agency funds		<u>\$ 12,521,501</u>

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

6. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2009, is as follows:

	Balance beginning of year	Increases	Decreases	Balance end of year	Due within one year
General obligation bonds	\$ 2,920,000	\$ -	\$ 100,000	\$ 2,820,000	\$ 230,000
Compensated absences	179,596	-	11,937	167,659	167,659
Total	<u>\$ 3,099,596</u>	<u>\$ -</u>	<u>\$ 111,937</u>	<u>\$ 2,987,659</u>	<u>\$ 397,659</u>

In August 2007, Cherokee County issued \$2,920,000 of general obligation bonds for Cherokee County Sanitary Landfill and Recycling Center (Landfill). The County has a separate agreement with the Landfill that requires the Landfill to make all principal and interest payments on these bonds. As a result, there is a note receivable reflected on the County's statement of net assets that is offset by a corresponding liability for the principal and interest payable on this debt.

The future principal payments are as follows:

Year Ending <u>June 30,</u>	Loan <u>Principal</u>
2010	\$ 230,000
2011	245,000
2012	260,000
2013	275,000
2014	290,000
2015-2018	<u>1,520,000</u>
	<u>\$ 2,820,000</u>

7. PENSION AND RETIREMENT BENEFITS

The County contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the County is required to contribute 6.35% of annual covered payroll. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$197,185, \$179,309, and \$188,971, respectively, equal to the required contributions for each year.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

8. RISK MANAGEMENT

Cherokee County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public official liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claim expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2009, were \$103,938.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in the aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2009, no liability has been recorded in the County's financial statements. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

8. RISK MANAGEMENT - (Continued)

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$5,000,000 and \$100,000, respectively, except the amount of public official blanket bond coverage for the Sheriff and Treasurer is \$150,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. EMPLOYEE HEALTH INSURANCE PLAN

Cherokee County entered into an administrative services agreement with Employee Benefit Systems to administer the employee partial self-funded health plan. Monthly payments of service fees and plan contributions are recorded as expenditures in the operating funds at the time of payment to the Internal Service, Employee Partial Self-Funded Health Plan Fund maintained by the County Treasurer. Under the agreement, deductible and coinsurance expenses are processed by Employee Benefit Systems with payments from the Internal Service, Employee Partial Self-Funded Health Plan Fund. The employer sponsors a group insurance policy which provides comprehensive hospital and medical coverage for eligible employees and, if elected, their spouses and dependents. Under the partial self-funded plan, the Plan will reimburse an eligible employee for a portion of the deductible and coinsurance expenses under the contract.

10. INTERGOVERNMENTAL AGREEMENT

The County participates in an agreement with Cherokee County Solid Waste Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Commission includes providing economic disposal of solid waste produced or generated within the member county and municipalities. Payments to that commission totaled \$105,975 during the year ended June 30, 2009.

State and federal laws and regulations require the Commission to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The total costs to the Commission have been estimated at \$2,441,851 as of June 30, 2008, and the portion of the liability that has been recognized is \$1,208,685. The Commission has begun to accumulate resources to fund these costs, and at June 30, 2008, deposits of \$304,166 are restricted for these purposes. The local government guaranty was used in prior years by the Commission to demonstrate financial assurance for post-closure care costs. The Commission obtained the local government guaranty from Cherokee County on June 10, 1997. No estimate has been made as to the effect of possible future assessments to the County.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

11. DEVELOPMENT AND REBATE AGREEMENT

The County has entered into development agreements to assist in urban renewal projects. The County agreed to rebate incremental taxes paid by the developer in exchange for infrastructure improvements constructed by the developer as set forth in the urban renewal plan. Under the first agreement, the incremental taxes to be received by the County under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the ten year period under the development and rebate agreement cannot be determined. The amount to be rebated each year will be 65% of the property taxes calculated on a minimum value of \$4,000,000. During the year ended June 30, 2009, the County rebated \$85,543 of incremental taxes to the developer. No bonds or notes were issued for this construction project.

Under the second agreement, the incremental taxes to be received by the County under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the ten year period under the development and rebate agreement cannot be determined. The amount to be rebated each year will be 65% of the property taxes calculated. During the year ended June 30, 2009, the County rebated \$11,324 of incremental taxes to the developer. No bonds or notes were issued for this construction project.

Under the third agreement, the incremental taxes to be received by the County under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of ten years beginning with the tax year in which the property taxes on the completed value of the improvements are first paid. The total amount that will be rebated over the thirteen year period under the development and rebate agreement cannot be determined. The amount to be rebated each year will be 65% of the property taxes calculated. During the year ended June 30, 2009, the County rebated \$108,969 of incremental taxes to the developer. No bonds or notes were issued for this construction project.

12. COMMITMENTS

The County has entered into the following contracts which were not completed as of June 30, 2009:

<u>Project</u>	<u>Total Contract Amount</u>	<u>Costs Incurred As of 6-30-09</u>	<u>Remaining Commitment As of 6-30-09</u>
C-65 Blacktop	\$ 267,958	\$ 247,401	\$ 20,557
BROS (53) Bridge	<u>272,853</u>	<u>-</u>	<u>272,853</u>
	<u>\$ 540,811</u>	<u>\$ 247,401</u>	<u>\$ 293,410</u>

The balance remaining at June 30, 2009, will be paid as work on the projects progresses.

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

13. JUVENILE DETENTION CENTER

The County participates in Northwest Iowa Multi-county Regional Juvenile Detention Center, a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Center is to establish and maintain a juvenile detention facility and related services. The Center does not determine capital allocations of the equity interest for individual participating jurisdictions. The Center issues separate financial statements on the accrual basis and the transactions of the Center are not included in the financial statements of the County. The Center's activity for the fiscal year ending June 30, 2009, which is the latest information available, is summarized as follows:

Net assets, beginning of year	\$ 537,390
Revenues	789,452
Expenses	<u>928,819</u>
Net assets, end of year	<u>\$ 398,023</u>

The financial statements of the Center are available at the Center's administrative office in Cherokee, Iowa.

14. RELATED PARTY TRANSACTIONS

The County had business transactions between the County and County officials or employees totaling \$9,886 during the year ended June 30, 2009.

15. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

16. OPERATING LEASE

The County has two leases. The Auditor's office leases a postage machine and the County Attorney's office leases a copy machine. Rental expense incurred for leases was \$7,741 for the year ended June 30, 2009. Minimum amounts payable under these operating leases are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Auditor</u>	<u>County</u> <u>Attorney</u>	<u>Total Minimum</u> <u>Lease Payments</u>
2010	\$ 6,888	\$ 3,186	\$ 10,074
2011	6,888	3,186	10,074
2012	6,888	1,328	8,216
2013	6,888		6,888
2014	5,166		5,166

17. ACCOUNTING RESTATEMENTS

Beginning net assets for the internal service fund has been restated to reflect the prepaids at June 30, 2008. This restatement is summarized below:

Net assets, June 30, 2008, as previously reported	\$ 183,485
Correction	<u>36,224</u>
Restated net assets, June 30, 2008	<u>\$ 219,709</u>

CHEROKEE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

17. ACCOUNTING RESTATEMENTS – (continued)

Beginning net assets for governmental activities has been restated to reflect a change in capital assets and accumulated depreciation. This restatement is summarized below:

Net assets, June 30, 2008, as previously reported	\$ 25,692,718
Restatement of beginning net assets	<u>117,866</u>
Restated net assets, June 30, 2008	<u>\$ 25,810,584</u>

REQUIRED SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY
BUDGETARY COMPARISON
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN BALANCES - BUDGET
AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2009

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to</u>
		<u>Original</u>	<u>Final</u>	<u>Actual</u>
				<u>Variance</u>
Receipts:				
Property and other County tax	\$4,818,300	\$4,812,500	\$ 4,812,500	\$ 5,800
Interest and penalty on property tax	31,460	8,350	8,350	23,110
Intergovernmental	4,134,144	3,873,620	3,933,620	200,524
Licenses and permits	105,284	32,587	32,587	72,697
Charges for service	302,099	247,395	247,395	54,704
Use of money and property	140,111	238,970	238,970	(98,859)
Miscellaneous	79,968	44,650	44,650	35,318
Total receipts	<u>9,611,366</u>	<u>9,258,072</u>	<u>9,318,072</u>	<u>293,294</u>
Disbursements:				
Public safety and legal services	1,405,827	1,573,145	1,583,145	177,318
Physical health and social services	324,200	302,223	362,223	38,023
Mental health	1,315,087	1,448,721	1,448,721	133,634
County environment and education	567,765	664,197	666,197	98,432
Roads and transportation	3,317,198	3,434,363	3,766,363	449,165
Governmental services to residents	345,231	470,058	470,058	124,827
Administration	1,187,306	1,453,135	1,453,135	265,829
Capital projects	464,266	2,015,000	1,683,000	1,218,734
Total disbursements	<u>8,926,880</u>	<u>11,360,842</u>	<u>11,432,842</u>	<u>2,505,962</u>
Excess (deficiency) of receipts over disbursements	684,486	(2,102,770)	(2,114,770)	2,799,256
Other financing sources, net	<u>215</u>	<u>83,000</u>	<u>83,000</u>	<u>(82,785)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	684,701	(2,019,770)	(2,031,770)	2,716,471
Balance beginning of year	<u>5,556,481</u>	<u>4,548,398</u>	<u>4,548,398</u>	<u>1,008,083</u>
Balance end of year	<u>\$6,241,182</u>	<u>\$2,528,628</u>	<u>\$ 2,516,628</u>	<u>\$ 3,724,554</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
BUDGETARY COMPARISON SCHEDULE-BUDGET
TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2009

	<u>Governmental Funds</u>		
	<u>Cash</u> <u>Basis</u>	<u>Accrual</u> <u>Adjustments</u>	<u>Modified</u> <u>Accrual</u> <u>Basis</u>
Revenues	\$ 9,611,366	\$ (62,843)	\$ 9,548,523
Expenditures	<u>8,926,880</u>	<u>(242,587)</u>	<u>8,684,293</u>
Net	684,486	179,744	864,230
Other financing sources, net	215	-	215
Beginning fund balances	<u>5,556,481</u>	<u>756,315</u>	<u>6,312,796</u>
Ending fund balances	<u>\$ 6,241,182</u>	<u>\$ 936,059</u>	<u>\$ 7,177,241</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds except Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service, and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund and the Special Revenue Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, one budget amendment increased budgeted disbursements by \$72,000. The budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council; for the County Assessor by the County Conference Board; for the E911 System by the E911 Service Board; and for Disaster Services by the Cherokee County Emergency Management Commission.

SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2009

Schedule 1

	Special Revenue								Total
	Resource Enhancement and Protection	County Recorder's Records Management	County Betterment	Forfeited Property Fund	Urban Renewal Tax Increment	Conservation Education	Conservation Land Acquisition	Drug Court Grant	
<u>ASSETS</u>									
Cash and pooled investments	\$ 38,422	\$ 9,537	\$ 184,625	\$ 14,448	\$ -	\$ 3,350	\$ 13,224	\$ 22,586	\$ 286,192
Receivables:									
Accounts	-	-	-	1,086	-	-	-	256	1,342
Property tax:									
Succeeding year	-	-	-	-	250,039	-	-	-	250,039
Due from other governments	-	678	20,888	-	-	-	-	-	21,566
Total assets	<u>\$ 38,422</u>	<u>\$ 10,215</u>	<u>\$ 205,513</u>	<u>\$ 15,534</u>	<u>\$ 250,039</u>	<u>\$ 3,350</u>	<u>\$ 13,224</u>	<u>\$ 22,842</u>	<u>\$ 559,139</u>
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities:									
Accounts payable	\$ -	1,565	\$ 9,320	\$ -	\$ -	\$ 1,429	\$ -	\$ 2,360	\$ 14,674
Deferred revenue:									
Succeeding year property tax	-	-	-	-	250,039	-	-	-	250,039
Total liabilities	-	1,565	9,320	-	250,039	1,429	-	2,360	264,713
Fund balances:									
Unreserved	38,422	8,650	196,193	15,534	-	1,921	13,224	20,482	294,426
Total liabilities and fund balances	<u>\$ 38,422</u>	<u>\$ 10,215</u>	<u>\$ 205,513</u>	<u>\$ 15,534</u>	<u>\$ 250,039</u>	<u>\$ 3,350</u>	<u>\$ 13,224</u>	<u>\$ 22,842</u>	<u>\$ 559,139</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

Schedule 2

	Special Revenue									Total
	Resource Enhancement and Protection	County Recorder's Records Management	County Betterment	Forfeited Property Fund	Hotel and Flood Relief Grants	Urban Renewal Tax Increment	Conservation Education	Conservation Land Acquisition	Drug Court Grant	
Revenues:										
Property and other County tax	\$ -	\$ -	\$ 125,023	\$ -	\$ -	\$ 205,836	\$ -	\$ -	\$ -	\$ 330,859
Intergovernmental	16,121	-	-	-	2,000	-	-	-	19,282	37,403
Charges for service	-	2,583	-	-	-	-	-	-	-	2,583
Use of money and property	149	24	-	-	-	-	-	19,227	-	19,400
Miscellaneous	-	-	-	7,149	-	-	2,452	-	-	9,601
Total revenues	<u>16,270</u>	<u>2,607</u>	<u>125,023</u>	<u>7,149</u>	<u>2,000</u>	<u>205,836</u>	<u>2,452</u>	<u>19,227</u>	<u>19,282</u>	<u>399,846</u>
Expenditures:										
Operating:										
Public safety and legal services	-	-	-	7,650	-	-	-	-	26,651	34,301
Physical health and social services	-	-	1,500	-	-	-	-	-	-	1,500
County environment and education	5,810	-	-	-	-	-	3,654	10,289	-	19,753
Governmental services to residents	-	2,437	-	-	-	-	-	-	-	2,437
Administration	-	-	124,741	-	5,033	205,836	-	-	-	335,610
Total expenditures	<u>5,810</u>	<u>2,437</u>	<u>126,241</u>	<u>7,650</u>	<u>5,033</u>	<u>205,836</u>	<u>3,654</u>	<u>10,289</u>	<u>26,651</u>	<u>393,601</u>
Excess (deficiency) of revenues over expenditures	10,460	170	(1,218)	(501)	(3,033)	-	(1,202)	8,938	(7,369)	6,245
Fund balances beginning of year	<u>27,962</u>	<u>8,480</u>	<u>197,411</u>	<u>16,035</u>	<u>3,033</u>	<u>-</u>	<u>3,123</u>	<u>4,286</u>	<u>27,851</u>	<u>288,181</u>
Fund balances end of year	<u>\$ 38,422</u>	<u>\$ 8,650</u>	<u>\$ 196,193</u>	<u>\$ 15,534</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,921</u>	<u>\$ 13,224</u>	<u>\$ 20,482</u>	<u>\$ 294,426</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
COMBINING SCHEDULE OF FIDUCIARY ASSETS
AND LIABILITIES - AGENCY FUNDS
JUNE 30, 2009

Schedule 3

	<u>County Offices</u>	<u>Agricultural Extension</u>	<u>County Assessor</u>	<u>Schools</u>	<u>Community Colleges</u>	<u>Corporations</u>	<u>Townships</u>	<u>Auto License and Use Tax</u>	<u>Other</u>	<u>Total</u>
<u>ASSETS</u>										
Cash and pooled investments:										
County Treasurer	\$ -	\$ 2,123	\$ 137,531	\$ 89,316	\$ 5,503	\$ 32,089	\$ 2,878	\$ 266,468	\$ 164,595	\$ 700,503
Other County officials	39,923	-	-	-	-	-	-	-	-	39,923
Receivables:										
Property tax:										
Delinquent	-	118	213	5,374	314	4,544	73	-	-	10,636
Succeeding year	-	175,818	317,815	7,294,106	447,242	3,195,757	240,602	-	1,758	11,673,098
Accounts	24,061	-	-	-	-	-	-	-	-	24,061
Special assessments	-	-	-	-	-	-	-	-	80,578	80,578
Total assets	<u>\$ 63,984</u>	<u>\$ 178,059</u>	<u>\$ 455,559</u>	<u>\$ 7,388,796</u>	<u>\$ 453,059</u>	<u>\$ 3,232,390</u>	<u>\$ 243,553</u>	<u>\$ 266,468</u>	<u>\$ 246,931</u>	<u>\$12,528,799</u>
<u>LIABILITIES</u>										
Trusts payable	\$ 7,298	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,298
Due to other governments	56,686	178,059	455,559	7,388,796	453,059	3,232,390	243,553	266,468	246,931	12,521,501
Total liabilities	<u>\$ 63,984</u>	<u>\$ 178,059</u>	<u>\$ 455,559</u>	<u>\$ 7,388,796</u>	<u>\$ 453,059</u>	<u>\$ 3,232,390</u>	<u>\$ 243,553</u>	<u>\$ 266,468</u>	<u>\$ 246,931</u>	<u>\$12,528,799</u>

See accompanying independent auditor's report.

CHEROKEE COUNTY
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS
AND LIABILITIES - AGENCY FUNDS
YEAR ENDED JUNE 30, 2009

Schedule 4

	County Offices	Agricultural Extension	County Assessor	Schools	Community Colleges	Corporations	Townships	Auto License and Use Tax	Other	Total
<u>ASSETS AND LIABILITIES</u>										
Balances beginning of year	\$ 53,019	\$ 168,020	\$ 468,303	\$6,808,093	\$ 435,811	\$ 2,852,693	\$ 432,106	\$ 269,191	\$257,151	\$11,744,387
Additions:										
Property and other County tax	-	176,719	319,686	7,521,282	448,862	3,142,175	39,465	-	7,772	11,655,961
E911 surcharge	-	-	-	-	-	-	-	-	81,845	81,845
State tax credits	-	8,382	17,735	352,997	21,799	164,229	9,893	-	97	575,132
Office fees and collections	325,122	-	3,007	-	-	3,605	-	-	32,103	363,837
Auto licenses, use tax, and postage	-	-	-	-	-	-	-	3,099,006	-	3,099,006
Trusts	-	-	-	-	-	-	-	-	82,195	82,195
Miscellaneous	-	-	-	-	-	-	-	-	112,056	112,056
Total additions	<u>325,122</u>	<u>185,101</u>	<u>340,428</u>	<u>7,874,279</u>	<u>470,661</u>	<u>3,310,009</u>	<u>49,358</u>	<u>3,099,006</u>	<u>316,068</u>	<u>15,970,032</u>
Deductions:										
Agency remittances:										
To other governments	314,157	175,062	353,172	7,293,576	453,413	2,930,312	237,911	3,101,729	287,867	15,147,199
Trusts paid out	-	-	-	-	-	-	-	-	38,421	38,421
Total deductions	<u>314,157</u>	<u>175,062</u>	<u>353,172</u>	<u>7,293,576</u>	<u>453,413</u>	<u>2,930,312</u>	<u>237,911</u>	<u>3,101,729</u>	<u>326,288</u>	<u>15,185,620</u>
Balances end of year	\$ 63,984	\$ 178,059	\$ 455,559	\$7,388,796	\$ 453,059	\$ 3,232,390	\$ 243,553	\$ 266,468	\$246,931	\$12,528,799

See accompanying independent auditor's report.

CHEROKEE COUNTY
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY
FUNCTION - ALL GOVERNMENTAL FUNDS
FOR THE LAST EIGHT YEARS

Schedule 5

	Modified Accrual Basis							
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues:								
Property and other County tax	\$4,827,438	\$4,446,332	\$4,030,004	\$3,663,265	\$3,309,962	\$ 3,545,524	\$3,433,492	\$3,048,959
Interest and penalty on property tax	31,361	33,491	28,115	26,574	28,397	35,093	35,966	37,817
Intergovernmental	4,086,764	3,891,160	4,901,523	4,892,279	4,459,666	4,232,454	5,161,854	4,065,881
Licenses and permits	118,817	71,445	62,677	48,679	108,040	103,453	39,489	37,266
Charges for service	256,256	309,839	278,784	304,764	335,183	321,542	242,519	220,468
Use of money and property	148,048	394,117	253,578	183,677	130,554	123,060	187,829	287,402
Miscellaneous	79,839	56,231	56,269	223,054	135,606	59,516	45,934	104,829
Total	<u>\$9,548,523</u>	<u>\$9,202,615</u>	<u>\$9,610,950</u>	<u>\$9,342,292</u>	<u>\$8,507,408</u>	<u>\$ 8,420,642</u>	<u>\$9,147,083</u>	<u>\$7,802,622</u>
Expenditures:								
Operating:								
Public safety and legal services	\$1,393,237	\$1,355,121	\$1,334,472	\$1,454,137	\$1,454,196	\$ 1,370,125	\$1,320,597	\$1,231,163
Physical health and social services	308,147	342,797	872,551	718,458	707,775	663,044	647,641	654,557
Mental health	1,253,326	1,451,519	1,239,044	1,227,280	1,058,419	942,271	936,183	994,105
County environment and education	545,212	771,436	510,401	447,528	477,898	454,172	443,347	430,844
Roads and transportation	3,163,632	2,908,855	3,102,927	3,008,202	2,695,879	2,764,505	2,410,874	2,460,040
Governmental services to residents	349,214	328,342	320,000	408,544	278,675	250,100	223,760	213,477
Administration	1,207,259	1,055,096	986,367	881,385	964,982	911,033	873,962	853,086
Capital projects	464,266	995,770	839,872	1,132,415	1,474,330	2,656,062	2,128,600	1,590,394
Total	<u>\$8,684,293</u>	<u>\$9,208,936</u>	<u>\$9,205,634</u>	<u>\$9,277,949</u>	<u>\$9,112,154</u>	<u>\$10,011,312</u>	<u>\$8,984,964</u>	<u>\$8,427,666</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Officials of Cherokee County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cherokee County, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements listed in the table of contents, and have issued our report thereon dated February 23, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cherokee County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Cherokee County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cherokee County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Cherokee County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Cherokee County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-09 and II-B-09 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Cherokee County's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the County's responses, we did not audit Cherokee County's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Cherokee County and other parties to whom Cherokee County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

February 23, 2010

Hungelman, Putzier & Co.

CHEROKEE COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties - During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements. We noted that generally one or two individuals in an office may have control over the following areas for which no compensating controls exist.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, each official should review the operating procedures of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel to provide additional control through review of financial transactions, reconciliations, and reports. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by initials or signature of the reviewer and the date of the review. Following are controls which should be implemented whenever possible:

1. All incoming mail should be opened by an employee who is not authorized to make entries to the accounting records. This employee should prepare a listing of cash and checks received. The mail should then be forwarded to the accounting personnel for processing. Later, the same listing should be compared to the cash receipt records.
2. Bank accounts should be reconciled promptly at the end of each month by an individual who does not sign checks, handle, or record cash.
3. Checks or warrants should be signed by an individual who does not otherwise participate in the preparation of the checks or warrants. Prior to signing, the checks or warrants and the supporting documentation should be reviewed for propriety. After signing, the checks or warrants should be mailed without allowing them to return to individuals who prepare the checks or warrants or who approve vouchers for payment.

Response - Each office maintains their own level of supervision for segregation of duties and corresponding risk controls to the extent that is possible with limited staff.

1. The County Treasurer opens the mail but does not post receipts to the accounts.
2. The Treasurer's clerk reconciles the month end statements and is not authorized to sign or withdraw from accounts.
3. The Deputy Treasurer prepares the orders and the Treasurer signs the orders. The checks that are written are usually requested by the Treasurer's staff and signed by the Treasurer and Deputy Treasurer. Both signatures are required on checks written.

Conclusion - Response accepted.

CHEROKEE COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Financial Statements: - (Continued)

I-B-09 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient to make management decisions, reporting financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional GAAP knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable GAAP financial statements.

Response - Conducting business within a small county with limited staffing results in the need to employ the services of a certified public accountant to ensure that all financial reporting is completed per state regulations. A management level employee has been assigned to oversee, review, and approve financial statements and related notes.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-09 Certified Budget - Disbursements during the year ended June 30, 2009, did not exceed the amounts budgeted.

II-B-09 Questionable Expenditures - No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-09 Travel Expense - No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

II-D-09 Business Transactions - Business transactions between the County and County officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ronald Wetherell, Supervisor, Part owner of Wetherell Manufacturing	Parts	\$ 2,533
Chris Staver, spouse of Sheriff Department employee, owner of High Country Auto Body	Parts and repairs	\$ 813
Thomas R. Jenness, Weed Commissioner owner of Coonley Creek Farms Inc.	Well closings	\$ 5,940
Tucker Bauman, son of Secondary Roads employee	Mowing	\$ 240
Tim Holmes, son of Secondary Roads employee owner of Holmes mowing	Mowing	\$ 360

CHEROKEE COUNTY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Required Statutory Reporting: - (Continued)

In accordance with Chapter 331.342(10) of the Code of Iowa, the transactions with Chris Staver, Tucker Bauman, and Tim Holmes do not appear to be conflicts of interest since total transactions were less than \$1,500 during the fiscal year. The other transactions may represent a conflict of interest.

Recommendation - The County should review those transactions closely and may want to consult their attorney to determine that they are in compliance with the Code of Iowa.

Response - The County attempts to use local businesses to provide goods or services for the County when possible. In the case of Ronald Wetherell and Wetherell Manufacturing, there were multiple parts and labor items included in the total amount paid. Each individual part and or labor item was significantly less than \$1,500.00. Few, if any, other local business would have been able to provide the goods and services needed at that time. Further, Mr. Wetherell's term as Supervisor for the County ended at the end of December, 2008.

In regard to Thomas R. Jenness, each individual land owner makes the decision as to who closes their well(s), the County does not contract with Mr. Jenness. Each individual well closing contract amounts to a maximum \$400.00 per well. Further, the payment policy has since been changed so that all payments are now made directly to the landowner. It is now the individual landowner's responsibility to pay the company or individual they contracted with to perform the well closing work.

Conclusion - Response accepted.

- II-E-09 Bond Coverage - Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-F-09 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-09 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the County's investment policy were noted.
- II-H-09 Resource Enhancement and Protection Certification - The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- II-I-09 County Extension Office - The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an Extension Council separate and distinct from County operations and, consequently, is not included in Exhibits A or B. Disbursements during the year ended June 30, 2009, did not exceed the amount budgeted.